

Office

Demand for office space in the capital was up by about 25 percent in the first semester against the same period of last year, and the trend is expected to continue

Residential

Housing demand is on the rise, say pundits, but new developments have stalled as banks remain reluctant to finance residential projects

Architecture

The next generation of shopping malls will need to find ways to offer consumers more than just shopping options

BR Property

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OFFICE NEW HORIZONS

An aerial photograph of a city, likely Bucharest, showing a wide river (the Dâmbovitza River) flowing through the center. The river is flanked by lush green trees and a paved promenade. The surrounding urban landscape is dense with multi-story apartment buildings and commercial structures. In the background, several modern skyscrapers rise above the city skyline under a clear blue sky.

Property Facts & Figures

Commercial

2 – retail projects will be delivered this year in Romania: Vulcan Value Center (35,000 sqm) in the south-west of Bucharest and Shopping City Targu Jiu (27,000 sqm), both developed by NEPI

1.66 million sqm – Romania's modern retail stock

890,000 sqm – Bucharest's modern retail stock

EUR 60-70 sqm/month – rents for prime shopping centers in Q1

EUR 55-65 sqm/month – rents for prime high street units

Source: JLL Romania

Five largest office projects (2014)

Green Gate (31,000) – developed by S Group Holding and delivered this May

City Offices (27,000 sqm) – developed by Globalworth in the Eroii Revolutiei Square

Green Court Bucharest (19,500 sqm) – developed by Skanska in the Barbu Vacarescu-Floreasca area

Hermes Business Campus (18,000 sqm) – developed by Atenor in the Pipera neighborhood

AFI Park 2 (12,200 sqm) – developed by AFI Europe close to the Polytechnic University

Residential

1 percent – the increase in asking prices for Bucharest apartments in the first semester against the beginning of the year

EUR 1,073/sqm – average asking price for Bucharest apartments at the end of H1

EUR 1,183/sqm – average asking price for new apartments in Bucharest at the end of H1

EUR 991/sqm – average asking price for old apartments in Bucharest at the end of H1

Source: Imobiliare.ro

Investments

EUR 402.4 million – the investment volume in Romania in H1 2014, the highest six-monthly volume since H1 2008

222% – increase of the investment volume in Romania in H1 2014 y-o-y

58% – share of office transactions in the total investment volume

55% – share of prime properties in the total investment volume

9% – share of distressed properties in the total investment volume

8% – prime yields on the office segment

EUR 60/sqm/mth – prime rent for shopping centers

EUR 18/sqm/mth – prime rent for offices

EUR 3.8/sqm/mth – prime rent for industrial space

15 – number of land transactions in H1, totaling 630,000 sqm

Source: CBRE data

Top five office transactions (H1)

16,000 sqm – pre-leased by Vodafone in the Bucharest One project developed by Globalworth

13,700 sqm – pre-leased by Orange in Skanska's Green Court Bucharest office project

4,800 sqm – pre-leased by Endava in the third building of AFI Park developed by AFI Europe

4,000 sqm – expansion by Ericsson in the West Gate office park owned by Genesis Development

3,500 sqm – leased by Allianz in the Floreasca Park office projects owned by Portland Trust

EDITORIAL

Simona Bazavan

Editor

Real estate: tepid evolution but a more promising outlook ahead?

It is always the office segment, with its lower associated risk, that kick-starts a new real estate cycle, say industry representatives. The office market did indeed have the most dynamic evolution by far of all the real estate sectors in the first semester, the period on which BR's latest property supplement focuses.

Some 95,000 sqm of office space was delivered in Bucharest in the first half of this year and the figure is expected to increase to about 135,000 sqm by yearend. Demand for new offices increased by around 25 percent during the same period, fueled mostly by IT, outsourcing and telecom firms, BR learned from industry representatives.

Will this be enough to fill Bucharest's newest office towers? Real estate agencies are, of course, optimistic, but the actual net take-up, meaning new entrants on the market or expansions of existing companies, stood at 46,000 sqm in the first semester, according to JLL data. Renewals and renegotiations made up another 82,000 sqm, adding up to a gross take-up of 128,000 sqm.

On the residential sector, on the other hand, the word that best describes the evolution in the first semester is tepid. While developers speak of demand picking up, the number of state-backed loans taken out through the Prima Casa program, the market's main driver since its launch in 2009, dropped in the first semester y-o-y. Securing a loan for a residential development remains next to impossible and bankers themselves complain that even for end users, procedures are so tight that bureaucracy has become the main issue the sector is struggling with at present.

In the meantime, asking prices in the capital increased by 1 percent in the first semester, a figure well within the margin of error. There is no data on actual sale prices, but stagnation, if not further drops, appears likely.

Should economic conditions further improve and the market get past the Prima Casa program, several developers are waiting in the wings to start works.

On the commercial segment no



Photo: Mihai Constantineanu

new projects were delivered in the first semester. In fact, only two modern retail schemes totaling 62,000 will be delivered in Romania this year, the lowest level reported since 2005, according to a JLL report. The full half of the glass is that several large surface shopping malls are being developed in Bucharest and outside the capital, and should be delivered from next year.

To find out what the future generation of shopping malls will look like, BR talked to Mario Sua Kay, the architect behind Immochan's EUR 60 million Coresi mall in Brasov, the largest mall to be delivered outside Bucharest next year.

And talking about the future, CBRE has recently announced that 15 major land transactions totaling 630,000 sqm were closed in the first semester. The number and value of land transactions has been going up, always the first sign of more developments to come.

And there is "huge potential for growth," industry representatives have been repeating for several years now. Judging from the results in the first semester, this potential is still a long way ahead, but should the industry post more substantial growth, it would be a sign that the entire economy is advancing on more solid ground.

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Office market: ready for tenants

Demand for office space in the capital was up by approximately 25 percent in the first semester compared to the same period of last year, and the trend is expected to continue, say real estate pundits. Companies active in IT, outsourcing and telecom remain the main players driving up the local office market, according to industry representatives.

BR SIMONA BAZAVAN

Approximately 130,000 -135,000 sqm of new office space should be delivered in Bucharest this year. Demand has been going up but is it growing enough for developers to fill their new office buildings by yearend?

To begin with, this year's new office stock is below the average volume over the last decade, Razvan Iorgu, managing director of the local CBRE office, told BR. Moreover, "given the solid and stable growth of demand over the last six-eight quarters, there is reason enough for there not to be a surplus in the market," he added.

The net growth of demand for office space in the first semester spells optimism for the industry, agrees Oana Sirbu, associate within the office agency of Colliers International Romania. "Basically, there were fewer requests for renegotiations or relocations within the same class of office space. Moreover, we've seen the entry of several large players and these trends are the first signs of a healthy market," she told BR. New transactions are being signed or are currently in the negotiation phase, which means that some of the new office projects will post vacancy rates of less than 20 percent by the end of the year, she added.

According to Mihaela Galatanu, research specialist at DTZ Echinox, some 60 percent of this year's new stock was already leased by the end of the first semester. "Developers have mostly managed to attract tenants since the construction phase - for example Green Court, Green Gate and the second and third phases of AFI Business," she told BR. And above all, demand for new office space - renegotiation transactions not included - was up by 25 percent in the first half of 2014 y-o-y, she stressed.

"We're seeing two new trends this year. First, relocations from class C of office space to class A and B were up by



The 31,000 sqm Green Gate project is the biggest office scheme delivered in H1

35 percent, and second, new demand, from new entrants on the market and expansions, reached a record level in H1. It represented about 30 percent of the total demand so far," said Galatanu, adding that the trend is expected to continue.

Given the high number of pre-leases in the first semester, the overall vacancy rate should not be affected, other market representatives agree. "The majority of the office buildings that were already delivered in 2014, or which will be delivered by the end of 2014, already have more than 80 percent of the space pre-leased. In some cases, the tenants are going to relocate from similar spaces, which means the vacancy rate will remain similar, but, in other cases, we have new tenants in Romania or net expansions, which, overall, will decrease the vacancy rate," Marius Scuta, head of the office department and tenant representation at JLL Romania, told BR.

According to JLL data, gross take-up in Bucharest stood at approximately 128,000 sqm in the first semester. This was "slightly above the level registered in 2013 during the

same period (123,000 sqm) and in 2012 (126,000 sqm). In general, gross take-up has remained stable over the past three years," added Scuta. Out of the 128,000 sqm gross take-up, approximately 46,000 sqm represented new take-up or net growth/expansions and approximately 82,000 sqm comprised renewals or renegotiations.

Compared to 2011-2012 when demand was dominated by renegotiation and expansion transactions, this year there is more balance between the various types of contracts - pre-leases, expansions, relocations from non-competitive to competitive stock and new entries, said Iorgu. "We can expect a gradual increase of pre-lease contracts over the next few months which will give further momentum to the local office market," he concluded.

The IT wave

Companies active in IT, outsourcing and telecom remain the main players driving up the local office market, according to both developers and real estate firms. Over one third of last year's office transactions involved IT firms, as did about half of those sealed

this year, went on Iorgu.

"In the first quarter, approximately 65 percent of the total demand for office space - renegotiation transactions not included - came from companies active in IT and telecommunications. In the second quarter the share stood at about 55 percent. So we can say that more than half of the demand for modern office space reported in the first semester came from these firms," confirmed Galatanu.

And the trend is expected to continue, given that lower costs, a versatile labor force and overall improving economic performances continue to attract outsourcing and IT companies to the local market, say pundits. With Poland and the Czech Republic increasingly perceived as becoming saturated, over the coming period the local market should see more firms active in these industries set up local branches or expand their existing operations.

"Poland (Warsaw and Cracow), the Czech Republic (Prague) and Hungary (Budapest) are Romania's main competitors. However, these markets are reaching a level of maturity, not necessarily from the perspective of their office space stock, but rather their labor force. As many centers have been set up in these markets, competition to get the right employees and labor costs likewise is increasing," explained Sirbu. Romania offers both a well trained labor force with language skills plus a large office stock, and "a tenant's market", she went on.

Outside the capital the costs are even lower, and cities like Timisoara, Cluj-Napoca, Brasov and Iasi are increasingly on investors' radar. Developers are taking notice. "In big cities such as Timisoara, Cluj-Napoca and Iasi there is a large number of office projects being built or which have recently been delivered, most of which are extremely efficient class A office developments. They are also being delivered in cities where demand is increasing - demand for office

OPINION

Florian Nitu Managing Partner, Popovici Nitu & Asociatii

Office development sector in the young adult age

Having just emerged from its first *crise de croissances*, the Romanian real estate office market is displaying a number of standard maturity characteristics: diversification, optimization, realism, environmental awareness.

Diversification

For occupiers, the good news is that, after the major contraction in 2009, the office market still remains, for most sub-markets, a tenant's market. Process-wise, once may sense a clear trend of tenants' migration to better and sometimes cheaper spaces, and the awareness that better space operation requires regeneration, refurbishment and optimization.

Structurally, however, office development is definitely more diversified (with a significant number of tenant-tailor-made developments), while office letting/operation is also seeing a behavioural change towards a heterogeneous tenant mix.

Optimization

Developers now need to secure somewhat higher levels of pre-letting in order to have access to project (bank



financing, which in fact translates additionally into good deals for occupiers willing to pre-lease. Further, optimization is being fostered by differences between sub-markets and as a consequence by the changing ratio of forces between landlords and tenants.

As there is currently a clear preference from occupiers for good quality central spaces at the expense of secondary locations, owners of modern class A office spaces enjoying good locations are favoured in dealings with tenants, whilst Class B properties, especially those located in non-metro or peripheral areas, are encountering significantly diminished leasing demand

and higher vacancy rates. This trend will, however, likely lead to a repositioning of a significant number of office buildings, which, mainly because of location or structural limitations, no longer meet tenants' demand.

Finally, the market now looks set for owners and occupiers to compete fiercely for their interests with the result evident in the quality of real estate projects and their service operation. All involved (land-owners, developers, financiers, owners, operators, tenants and other users, etc.) are likely to show an increased flexibility, which is expected to improve conditions for anyone.

Realism

There has been a clear demise of speculative office development and transaction activities.

Pre-leasing is getting sacrosanct in office development finance, and its share continues to increase. While pre-lease transactions were almost nonexistent in the first years of the economic crisis, when tenants would show excessive prudence and consequently an almost exclusive preference for completed projects, since 2012, pre-leases have

increasingly gained weight in the overall leasing activity volume.

The current market context particularly fosters pre-leases as new available stock expected to be delivered is insufficient to meet the relocation demands of corporate occupiers.

Environmental awareness

It has become standard practice for the new office developments to be green buildings, and owners' interest has focused on undertaking refurbishment measures aimed at turning older facilities into Class A energy efficient buildings or simply into greener office accommodation, and the Bucharest office market has already seen some successful reconversion projects in this sense.

For Romania, the real estate sector remains a key driver for economic growth, but the market matured and the new expansion wave is now benefiting to experienced developers and investors only.

space outside Bucharest was up by half in the first quarter y-o-y," added Iorgu.

While real estate firms maintain an optimistic tone about the overall outlook, there are more measured views on the market as well. Liviu Tudor, president of Genesis Development, which owns the 150,000 sqm Novo Park and West Gate office projects in Bucharest, thinks it will be hard for the market to absorb this year's stock, even in the context of IT companies expanding their local footprint. "We should remember that in the first six months alone almost 100,000 sqm of office space was delivered and another 20,000-30,000 sqm is expected to be completed by yearend. I think it

will be difficult for the market to absorb a 130,000 sqm stock, given that up to 15,000 employees can work on such a surface," he told BR.

2014 office roundup

Some 95,000 sqm of office space was delivered in Bucharest in the first half of this year, approximately 15,000 sqm more than the figure reported in the same period of 2013.

The 31,000 sqm Green Gate project from Czech real estate developer S Group is the biggest office scheme to be delivered so far in Bucharest this year. The office project required a EUR 57.5 million investment and is located in Chirigiu Square. It was delivered in May with an occupancy rate of about

60 percent. The project's main tenant is local IT company Teamnet, which has leased around 10,000 sqm for its 600 employees for a seven-year period. Other tenants include Mapei Romania, Teaha Management Consulting and Fujitsu Siemens.

The developer estimates that the building will be fully leased in about a year and, confident in the market's potential for further growth, is looking to buy more land in Bucharest for another office project, said Vladimira Novakova, managing director of Green Gate Development, during the opening event.

Elsewhere, AFI Europe delivered the second building of its AFI Park office project in April after having pre-leased almost the entire 12,200 sqm GLA to American IT player Electronic Arts.

The third building in the project, which will be delivered in December, will add another 12,200 sqm GLA, out of which 40 percent has been pre-leased to British IT company Endava. AFI Park is located near the AFI Palace Cotroceni shopping mall, and when completed will feature five buildings totaling approximately 60,000 sqm. Construction of the last two buildings, which will comprise 32,000 sqm of GLA, started in April.

The end of the year will also see the delivery of the first phase of Skanska's

Green Court Bucharest project. It has a leasable area of some 19,500 sqm, of which 13,700 sqm has recently been pre-leased by Orange Romania. Schneider Electric Romania had previously pre-leased another 3,100 sqm. The entire project will feature three buildings totaling 52,000 sqm.

The developer has invested EUR 46 million in the construction of the first building and the foundation of the second one, which should be completed by May next year. In addition to developing Green Court Bucharest, Skanska is also looking to buy more land for a new office project and is "likely" to close a land transaction by year-end, company representatives have previously stated.

Whereas Green Court Bucharest is located in the Floreasca-Barbu Vacarescu neighborhood, an area that remains the capital's most dynamic office sub-market, Green Gate and AFI Park are in the south and center-west. Despite its smaller size, the latter in particular is rapidly emerging as a new key destination for business in the capital, due to its transport accessibility, proximity to the Polytechnic University, nearby student campuses and densely populated residential neighborhoods, according to JLL.

Bucharest office outlook

	2013	y-o-y	12 mo outlook
Completions	119,000 sqm	+143%	positive
Total stock	2.08 mln sqm	+6%	positive
Vacancy rate	14.4%	-1.6%	contraction
Gross take-up	293,000 sqm	+20%	positive
Net take-up	150,000 sqm	+65%	positive
Prime headline rent	EUR 18.5/sqm/mo	-	stagnation
Prime yields	8.25%	-	negative

Source: JLL

Housing market still awaiting kick start

Housing demand is on the rise, say developers and real estate pundits, but new developments have stalled as banks remain reluctant to finance residential projects. The good news for prospective buyers is that prices are stagnating too, and fluctuations of less than 5 percent are likely by yearend.

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Average asking prices for Bucharest apartments increased by 1 percent in the first semester of the year compared to six months ago, according to data from real estate portal Imobiliare.ro. And this stationary situation applies to more than house prices, but the evolution of the entire residential market in the first semester.

“It is too early to talk about the residential market (...). There are two entities dictating this. On one hand there are the banks, who cannot be convinced to start financing the residential sector overnight, and on the other hand there are the developers who so far don’t want to hear about residential projects,” said Attila Peli, head of development and land at JLL, during the 13th edition of BR’s Realty event in June. Nevertheless, he predicted that the situation could change next year.

Peli, who believes a new real estate cycle has begun, explained that like the last time around, it is the office segment, with its lower associated risk, that will be the first to experience the rebound. And recent market developments confirm this.

New housing market crawls towards recovery

Over 27,300 new flats located in 115 residential compounds of over 20 units have been built in Bucharest and Ilfov county since 2006, according to CBRE data. More than a third of this stock is in Ilfov. In the capital, district three takes the lead with a 17 percent share of the total modern stock. Headline asking prices are below EUR 1,000/sqm (gross built) for 69 percent of modern stock.

Around 4,000 flats located in 31 compounds were in various stages of development by mid-2013 and were expected to be delivered by 2015, according to the same source. However, the majority of these homes represent expansions of existing developments.

With plenty of toxic real estate assets in banks’ portfolios and the industry generating good business for insolvency firms, securing financing for new residential developments remains next to



Going up: Bucharest’s new housing stock is expected to surpass 31,000 apartments by 2015

impossible in the current market conditions, developers complain.

As a result, in recent years most of the residential developments have been financed from private equity. Real estate developer Adama, which last year delivered 210 apartments in Bucharest and will deliver 50 more new homes in Iasi this autumn following a total investment of close to EUR 16 million from its own funds, has land in Bucharest to develop new residential compounds, Alina Necula, head of marketing & sales at Adama Group, told BR.

The developer is considering the Berceni, Razoare and Vasile Lascar areas of the capital for its next projects but says it is difficult to give a precise timeline for beginning works.

“On one hand there is the process of obtaining all the authorizations and permits and there is also the market’s evolution,” she outlined. Adama is currently in the process of getting the necessary permits and will most likely begin a new project in the first quarter of next year, she added.

And the market evolution has been positive so far, said the marketing &

sales head. Prices bottoming out and the various financing options available for prospective buyers are the main factors encouraging people to invest in buying a home, believes Necula.

As a result, the developer has seen sales improve constantly in the first semester and expects to surpass last year’s level. In 2013, Adama sold 25 percent more properties than the previous year and it has set the target for this year to maintain monthly sales of at least 12-15 units, a target it has surpassed, according to company data.

Confident in the obvious need for more apartments in the capital, other developers are waiting for market conditions to improve to begin similar projects.

For example, AFI Europe Romania, the developer of the AFI Palace Cotroceni and AFI Palace Ploiesti shopping malls, is looking at expanding into residential, the developer’s CEO, David Hay, told BR in an interview earlier this year. However, there are no firm plans for next year. “It is in the cards. Not next year, for sure, but the market will change. We see this and we are getting

ready for when it does. It could take one, two or three years, but it will change. Right now the demand is, let’s say, only for apartments that qualify for the Prima Casa scheme. We’re hardly seeing any sales outside of this. The market will move past this when people feel more secure and are ready to take risks,” he predicted.

Financing still in limbo

While financing conditions for developers remain tight, the situation has definitely improved when it comes to financing buyers, thinks Necula. One good sign is that buyers are now looking at other options beyond the Prima Casa (First Home) government-backed loan program.

“The Prima Casa program remains popular but it is used exclusively by those who cannot afford a down payment of more than 5 percent. Increasingly we have clients taking out regular loans for which monthly repayments are similar to if not more advantageous than Prima Casa,” she said.

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Property possibilities: what type of home can a household earning EUR 660 buy?

Year	2008	2010	2014
Household revenue	EUR 660	EUR 660	EUR 660
Level of indebtedness	50%	50%	50%
Loan duration	30 years	30 years	30 years
Maximum loan	EUR 52,000	EUR 48,000	EUR 55,000
LTV	75%	75%	75%
House price	EUR 69,000	EUR 64,000	EUR 73,300
Construction price	EUR 1,840/sqm	EUR 1,150/sqm	EUR 920 EUR/sqm
Built area	37sqm	56sqm	80sqm

Source: Kiwi Finance estimations based on the revenues of an average two-person household with no other debts

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Despite this, there is still room for improvement, think banking representatives.

“The market has gone forward in terms of demand but banks aren’t catching up,” said Anca Bidian, general manager at Kiwi Finance, during BR’s Realty event. In order to reduce risks, lenders have tightened procedures to the point where bureaucracy has become the main issue the sector is struggling with at present. “The banking system is running pretty much like the Ministry of Finance in this regard,” she commented.

“A worrying share of credit requests are denied for bureaucratic reasons alone.”

There is liquidity in the market, and the growing demand and clear signs that even the residential market is entering a new growth phase will push banks to further loosen credit for end users, added Bidian.

Prima Casa loans decline in first semester

Nevertheless, Prima Casa has been and continues to be the main driver of the local residential market, with few apartment transactions being closed outside the program. Its attractiveness consists mostly in the fact that beneficiaries can buy an apartment or a house with a down payment of only 5 percent compared to the minimum 15 percent required for regular mortgages.

The most recent data from the National Guarantee Fund for SMEs (FNGCIMM) indicate that the number of state-guaranteed loans issued in the first semester has dropped y-o-y, contradicting the idea that demand is on the rise.

In the first semester of this year, some 11,000 guarantees were issued, below the approximately 13,000 issued in the first semester of last year, show FNGCIMM data.

According to the same source, beneficiaries are mostly young people aged between 26 and 35 who have opted for one-bedroom apartments. Almost a third of the loans were taken out by beneficiaries from Bucharest.

Between 2009 and July this year,

over 119,200 guarantees worth approximately EUR 2.3 billion were issued for mortgages totaling EUR 4.56 billion. The average value of a loan taken out through the program is EUR 38,300.

Half of the RON 2 billion the FNGCIMM has available this year for such lending was used in the first semester.

Prices plateau

The market should move by no more than 5 percent over the next 12 months, expects Necula. “These are normal fluctuations on a mature and stable market, which is something that the segment is heading towards” she predicted.

Indeed, the average asking price for Bucharest flats increased by 1 percent in the first semester compared to the beginning of the year, according to data from real estate portal Imobiliare.ro.

This means that the average price per sqm is now EUR 1,073 compared to EUR 1,062 six months ago. While asking prices for new apartments have remained relatively stable (at EUR 1,183/sqm), owners of old apartments have increased their expectations (to EUR 991/sqm, up from EUR 982/sqm at the beginning of the year).

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New Praktiker owner plans to resume expansion

Over the next two months, new Praktiker stores will be opened in Giurgiu and Targu Jiu and the DIY retailer's network should increase from 27 outlets at present to 45 in two years' time, **Omer Susli**, the businessman who took over the local Praktiker business this February, told BR.

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After five consecutive years of falling sales in Romania, the local Praktiker network wants to recover its losses by the end of 2014, said its new owner. The local businessman, who controls several other companies active in the construction field, took over the 27 Praktiker branches in Romania this February from the insolvent Praktiker AG.

"Over the past three months Praktiker has reported profit, and by the end of the year we will recover, I hope, all of the losses," he told BR. This is the result of several changes to the retailer's strategy. Among other things, these include the introduction of new products and product categories and customized offers and price cuts for loyal customers. "The new Praktiker will be a customer-driven store. Right now customers want a good price-quality ratio," said the businessman. The entire repositioning campaign should start bearing results by yearend, Susli believes.

Last year, the firm reported sales of approximately EUR 130 million and a EUR 16.3 million net loss. This is less than half the level it reported in 2008.

The German retailer has been present in Romania since 2002 and saw its sales peak at EUR 292.4 million in 2008 with a network of 25 outlets. As market conditions worsened and competition increased over the following years, the retailer saw sales drop and losses increase.

Though the market is showing no sign of an upturn, Susli is confident in what the future holds for Praktiker. He has no plans to close down any of the 27 branches and, moreover, is planning to open new ones. "We want to increase the profitability of the existing stores and more than that, over the next two years we want to expand the network to 45 outlets. In less than two months we will open stores in Giurgiu and Targu Jiu," he said.

The businessman is also open to buying other Praktiker stores from their owners and recently entered the auction for the 15 stores Austrian DIY group bauMax was selling in Romania. "We wanted to buy some of their stores but because the Austrian retailer wanted to sell all of them together, they chose another buyer," he added.

However, such market shifts and the overall slow recovery of the DIY sector



will not pose competition problems for Praktiker, says its new owner. "There is room for everyone on the market," concluded the businessman.

How the mighty have fallen

The local DIY market has been through major changes since the start of last year, with OBI closing its local stores and bauMax selling its network to French Adeo only the latest industry news.

The reasons behind these shifts in the market date back to the beginning of the crisis since when, following the collapse of the real estate market, local DIY retailers, most of which are branches of international players, have seen their business shrink. With few exceptions, expansion plans were also frozen.

In response to its poor results, the news broke in July that OBI is to close all seven of its local stores this September, five of which could be taken over by Greek toy retailer Jumbo. OBI, which is part of German retailer Tengelmann, opened its first local shop in 2008 and expanded until 2010. Its 2013 turnover is estimated at EUR 37 million.

While OBI did not manage to sell its entire network, Austrian DIY retailer bauMax announced the same month

that all of its 15 stores in Romania would be taken over by French DIY group Adeo. The value of the transaction has not been made public and is now pending regulatory approval from the Romanian authorities. Adeo, which owns several DIY retail brands, is already present locally with a Leroy Merlin store in Bucharest.

Kingfisher, the biggest European home improvement retailer, last year bought the 15 local Bricostore branches from French company Bresson. By mid-

2015 the company wants to transform all 14 local Bricostore outlets into the Brico Depot low-cost retail format and even open new shops. Kingfisher representatives said last year that the company wants to grow to 50 branches in Romania over the coming years, despite the fact that the market has been contracting for some time and is showing no solid signs of growth. However, no actual timeline has been offered for reaching the 50-store target.

While international players struggle, local Dedeman, which is owned by Romanian businessmen Dragos and Adrian Paval, has grown to become the leader of the Romanian DIY market. Unlike its international competitors, the company has managed to maintain a steady expansion rhythm over recent years, reaching a network of 36 outlets at the end of 2013. Its 2013 turnover was expected to increase by 8 percent to about EUR 590 million.

In March, Dedeman opened its 37th store in Sibiu following a EUR 13 million investment, and said that another 13 outlets would be opened in the future, three of which would be inaugurated by yearend.

Largest DIY retailers in Romania by number of outlets at end of 2013

Name	Number of outlets
Dedeman	36
Praktiker	27
bauMax	15
Bricostore	14*
OBI	7
Hornbach	5

*At least two of the stores had been rebranded as Brico Depot

Source: Companies' data

Back to basics in retail and office architecture

Relevance beyond shopping – this is what the next generation of local shopping malls should move towards, **Mario Sua Kay**, the architect behind Immochan's EUR 60 million Coresi mall in Brasov, tells BR.

BR SIMONA BAZAVAN

"I've visited shopping malls from the Baltic countries to the Balkans and they are all so similar. Internally they are all beige, safe, straight and very dull places to be. People go there because there is no alternative, in a way," argues Kay, the founder of Portuguese firm Sua Kay Architects. And Romania is no exception to this general trend, with most local malls being "isolated boxes that look like railway stations or airport terminals".

Kay, the architect behind Immochan's EUR 60 million Coresi project in Brasov, says the mall, which will be opened next year, will break away from this. "The shopping mall itself will be very much city specific. It's not a box that could be built anywhere else and have the same impact," he says.

The first step was to get the feel of the city and integrate that into the future mall. "Brasov has a certain charm because the old bits work with the new ones," making it similar in this regard to cities like Seville or Lisbon, he says. Elements in the facades, the colors and the building's irregularities have references to the city itself. "We've tried to follow the city's pattern where you walk and discover new places," in the way the interior corridors are designed, notes Kay.

The project is branded as a "shopping resort" and special attention has been given to integrating the outdoors, a step up from the general idea that "a shopping mall is something that is totally internal, that you go in and the only thing you do is shop, shop, shop, and you don't want to know about the outside". This will translate into the use of glass, lots of natural light, an open food court and an outdoor terrace, adds the architect, whose firm has designed another Immochan mall which will be delivered this November in Portugal.

Making the shopping mall community relevant is another important feature for the Coresi project and in line with what is happening elsewhere in Europe, says the architect. Going to a shopping mall to get a passport or pay the bills, and retail projects that host health facilities or entire clinics are becoming customary.

But above all, Kay says he wants his retail projects to be places that offer people more than shopping options, fun places where people of all generations come together, socialize and enjoy themselves. "With the new generation of shopping malls, a lot of people think it's all going to be electronic. And I say, why do you want to put people in a shopping mall, looking at screens with their mouths open and not doing any-



Photo: Silviu Pal

thing besides what they can do at home?" he asks.

Back to basics

All in all, the next generation of shopping malls will mark a return to the basics. "In a way, it is going back, humanizing the experience, making it more touchy feely," outlines the architect, who nevertheless admits that "there is still very much a closed box idea going on" when it comes to retail architecture.

Kay, who has been to Romania before and also designed Martifer's Prime Towers office project in Bucharest (2008) and Benevo's retail scheme in Colentina, a project that the developer later dropped, thinks the local market will definitely evolve further in terms of architecture and design.

This will happen even with office projects, where developers still like to play it safe. With fewer people now working the regular 9 to 5 full-time program and the concept of smart cities gaining ground, offices will have to evolve as well.

But at the end of the day, how important is a project's architecture to its success? It is one of the basic requirements, thinks Kay, and as competition between developers to attract shoppers and tenants increases, architecture

should have an increasingly important say.

This will mean better days for architecture firms as well, which alongside other real estate players have seen their business shrink in recent years.

Depending on the country, the project's complexity, the value of the investment and the services provided, an architecture firm can be paid around 2-3 percent of the entire value of the project, says Kay.

Immochan Romania wants to open Coresi Brasov in March 2015

The EUR 60 million first phase of the Coresi Brasov real estate project, developed by Immochan Romania, the real estate division of the Auchan Group, will be delivered in the first quarter of 2015, probably March, company representatives have previously stated.

It will comprise an Auchan hypermarket (13,000 sqm) and a commercial gallery (32,000 sqm) which in turn will feature some 130 stores, a cinema multiplex (with eight projection rooms), a food court (3,500 sqm) and an entertainment area (1,500 sqm). Some 70 percent of the project is already leased.

Coresi Brasov is being developed on a 100 ha plot of land that was part of the Tractorul industrial platform in Brasov

Romania's new retail supply hits nine-year low in 2014

- Only two modern retail schemes will be delivered in Romania this year, totaling 62,000 sqm, according to a JLL report. This is the lowest level reported since 2005, says the real estate service firm.

- The two projects are Vulcan Value Center (35,000 sqm) in the south-west of Bucharest and Shopping City Targu Jiu (27,000 sqm). Both are being developed by South African real estate investment fund New Europe Property Investments (NEPI).

- Romania's modern retail stock presently stands at 1.66 million sqm, out of which 890,000 sqm are in Bucharest. No new projects were delivered in the first quarter. By comparison, 95,000 sqm joined the market in Q4 2013, according to JLL.

- However, several large surface shopping malls are being developed in Bucharest and outside the capital, and should be delivered from next year.

- 2015 will see the opening of the 70,000 sqm Mega Mall developed close to the National Arena in Bucharest. The shopping mall will require an investment estimated at EUR 150 million. Its main owner is NEPI, whose local portfolio has grown to over EUR 1 billion.

- Sonae Sierra and Caelum Development are working on another 70,000 sqm shopping mall in Bucharest. The EUR 180 million ParkLake shopping mall is located in Titan, the same Bucharest neighborhood as Mega Mall, and should be completed in 2016, some nine years after it was first announced.

- Outside the capital, Coresi Brasov, being developed by Immochan, is the largest retail project currently under construction.

(190 km from Bucharest) which Immochan bought in 2012. The development of the entire project is projected to take 15 years. In addition to the mall building, it will feature several other retail boxes (DIY, furniture, sports and electronics stores) and a service station.

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